

WorkFirst Reexamination Workgroup Focus Area Briefing Paper

Issue: Earned Income Tax Credit (EITC) Outreach

Goal: Increase income to not need TANF

Description: Established by Congress in 1975, the EITC is a refundable federal tax credit designed to encourage employment in low- and moderate-income families. Part of Washington State's "Make Work Pay" strategy, the EITC can put as much as \$4,300 into the pocket of a low- and moderate-income family. Families with incomes up to nearly \$36,000 can benefit from the EITC. In addition, parents with even higher incomes may qualify for the Child Tax Credit of up to \$1,000 per child.

Who may claim the EITC?

Employed in 2004 and:

Earned less than \$35,458, with two or more children; or

Earned less than \$31,338, with one child; or

Earned less than \$12,490, with no children, and between the ages of 25 and 64

How much money can you get from the EITC?

The amount of the credit depends on earnings and number of children. Below is an example of possible refunds.

2004 Household Income	EITC amount with no children	EITC amount with one child	EITC amount with two or more children
\$1,000	\$78	\$349	\$410
\$6,000	\$390	\$2,049	\$2,410
\$9,000	\$191	\$2,604	\$3,610
\$12,000	\$0	\$2,604	\$4,300
\$18,000	\$0	\$1,973	\$3,472
\$24,000	\$0	\$1,014	\$2,209
\$27,000	\$0	\$535	\$1,577

Cost:

Tax Year	Washington State filers	Dollars brought into state	Campaign Expenditures (TANF \$ in subsequent PY)
1998	311,202	\$447,487,000	-0-
1999	305,451	\$452,058,272	\$573,798
2000	301,717	\$452,086,873	\$514,122
2001	310,971	\$466,250,342	\$592,697
2002	332,916	\$537,329,000	\$156,057*
2003 (through 6/2003)	334,740	\$539,029,377	\$51,240
2004 (through 6/2004)	Pending data from IRS	Pending data from IRS	\$172,046 (budgeted)

*Campaign was ramped down in June 2003 due to budget constraints.

In the past, ESD has funded and staffed the EITC outreach effort. Due to budget cuts, ESD is no longer able to maintain that function. If funding becomes available to continue the campaign's success, decisions must be made on the infrastructure, e.g. where the call center will be housed, as well as other staffing and management decisions.

Background: Since 1999, Washington State has promoted the federal Earned Income Tax Credit and Child Tax Credit to its residents enabling millions of dollars to be returned to the pockets of low- and moderate-income families. Through an ESD-staffed call center, trained agents were able to answer questions about these tax credits.

In 2004, the state promoted usage of a free tax preparation software called I-CAN! through its WorkSource offices. Every public WorkSource Center computer in the state featured the I-CAN software developed by Legal Services of Orange County. Last year, more than 150 Washington workers used I-CAN! to collect more than \$230,000 from EITC – without paying for tax preparation services.

In addition to the call center and tax preparation software, the outreach effort included mailing EITC and CTC brochures, posters, flyers, etc to:

- Medicaid recipients (more than 500,000)
- Non-assistance food stamp recipients
- Child support custodial and non-custodial parents
- Foster parents
- Workers with disabilities and families raising children with disabilities
- Residential care providers
- Grandparents raising grandchildren and other relative caregivers
- Medicaid providers
- Limited English speakers
- Tribal members

Field staff at DSHS and ESD also promote the tax credits with their clients during the tax season.

Research: In 2004 (tax year 2003), more than 350,000 Washington workers collected more than \$572 million.

Despite efforts to increase EITC and the Child Tax Credit collection, there are still millions of dollars left on the table. According to OFM's "Going It Alone: Why Eligible Families Choose Not to Use Public Benefits" (Zeidenberg, Came, 2005) only forty-two percent of seemingly eligible Washington families received the EITC. This percentage, while clearly showing room for improvement, may be higher than most states, although researchers are unable to determine exactly how many workers are eligible, but don't file for the credit.

Benefits:

- **Decreasing poverty:** According to the Center for Budget and Policy Priorities, another powerful effect of the EITC: reducing poverty. Census data show that in 2002, the EITC lifted 4.9 million people out of poverty, including 2.7 million children. *Without the EITC, the poverty rate among children would have been nearly one-third higher*
- **Increased dollars into the state's economy:** Surveys show that while many families use their EITC to pay for necessities like housing and food, some families use it for purchases that can help them maintain or improve their standard of living, such as repairing a car needed to get to work, making home repairs, and paying for education or job training.